

VIDEO

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Focus on Funds: Costs Continue to Fall for 401(k) Investors

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ICI's latest study of 401(k)s shows that investors continue to benefit from falling expenses and fees, a wide range of account services, and diverse fund investment choices. In the July 31, 2020, edition of *Focus on Funds*, ICI Economist James Duvall breaks down the latest trends.

Transcript

Stephanie Ortballs-Tibbs, ICI director of media relations: ICI's study of 401(k) fees and expenses is always well noted, and one of the things it offers a really good look under the hood at the services that 401(k)s offer their account holders. James, when you look at this year's study, what do we learn?

James Duvall, ICI economist: 401(k) plans are a complex employee benefit, and plan sponsors provide a range of services. These services include administrative services—such as plan creation and recordkeeping—and participant-focused services, such as managing loans and providing a range of investment options from which to choose. All of these services together make 401(k) plans an attractive workplace benefit, and these services involve costs.

Ortbals-Tibbs: James, people do love a lot of things about their 401(k)s. One of the things they enjoy are the investment choices they have. What do you guys learn there?

Duvall: Well, so 63 percent of 401(k) plan assets were invested in mutual funds in 2019, the majority of which were in equity mutual funds. Since mutual funds must legally disclose their expense ratios annually, we're able to look at the cost of the mutual funds available in 401(k) plans.

Ortbals-Tibbs: And the other thing that really is remarkable in what you see is this continued downward trend in the fees and expenses.

Duvall: Exactly. The expense ratios that 401(k) plan participants incur for investing in

mutual funds have declined substantially since 2000. In 2000, 401(k) plan participants incurred an average expense ratio of 77 basis points for investing in equity mutual funds. By 2019, that figure had fallen to 39 basis points, which is a 49 percent decline.

Another trend is that 401(k) plan participants tend to hold lower-cost funds. In 2019, the asset-weighted average expense ratio incurred by 401(k) investors in equity mutual funds was 39 basis points—lower than the industrywide asset-weighted average of 52 basis points.

Ortbals-Tibbs: Those numbers really do tell a story there, and what do you see as some of the drivers behind them?

Duvall: So there are multiple drivers for this, one of which is economies of scale. Many employer plans aggregate the savings of hundreds or thousands of workers and often carry large average account balances, which are more cost effective to service. Additionally, employers that sponsor 401(k) plans may cover some of the costs of running the plan, allowing them to select lower-cost funds.

Additional Resources

- [ICI Research Perspective: The Economics of Providing 401\(k\) Plans: Services, Fees, and Expenses, 2019](#)
- [ICI Viewpoints: IRA Investors Are Concentrated in Lower-Cost Mutual Funds](#)
- [401\(k\) Resource Center](#)
- [Defined Contribution Plan Participant's Activities, First Quarter 2020](#)
- [Report: American Views on Defined Contribution Plan Saving, 2019](#)

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